SUBMITTED VIA EMAIL TO: fsb@fsb.org

To whom it may concern,

Re: The Financial Stability Board Thematic Peer Review on FSB Global Regulatory Framework for Crypto-asset Activities

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

The input to this response has been curated through a series of member discussions, industry engagement, and roundtables, and GDF is grateful to its members who took part.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail should that be beneficial as the FSB continues its work.

Yours faithfully,
Elise Soucie – Executive Director – GDF

Response to the Public Consultation: Executive Summary

GDF was grateful for the opportunity to engage with the Financial Stability Board (FSB) over the past few years as part of its industry engagement through forums, events, and calls for industry input.

Overall, GDF is supportive of the FSB's aim to review and strengthen global regulatory frameworks for crypto assets.

GDF developed this response with its Global Policy & Regulatory Task Force, which is comprised of GDF members from across the globe. This is part of our ongoing commitment to supporting the work of the FSB and all global standard setters, as well as the GDF mission to support the development of best practices and governance standards across the digital finance industry. The executive summary concisely summarizes our views on the questions set out in the peer review. Our key points of our feedback are as follows:

1. **Jurisdictional frameworks and their maturity have a significant impact on a firm's decision to build there. This can have a knock-on impact on the overall development of growth and innovation of the financial services sector in that region;**

2. **The most common challenges across all jurisdictions were Cyber Security Concerns, Implementation of AML/KYC Requirements (and the challenges associated with fractured or misaligned implementation), and Complex Reporting Requirements;**

3. **As jurisdictional approaches continue to evolve, we would highlight the following key areas in greater detail for the FSB to monitor including: Scale and Materiality of Adoption, Institutional Integration and Exposure, and Compliance Complexity & Regulatory Arbitrage; and**

4. **We strongly support the adoption of new technologies by regulators.**

Response to the Peer Review Stakeholder Feedback Questions

Impact of jurisdictional regulatory frameworks on decisions of crypto-asset issuers and service providers (including stablecoin arrangements) to locate and structure their business.
Based on the experiences of GDF members we would highlight several key aspects, such as fostering innovation, ensuring access to a skilled workforce, maintaining a robust regulatory environment, and increasing global market access, as being particularly crucial for the growth of a jurisdictional financial services ecosystem. The extent to which jurisdictions enable these outcomes can significantly impact a firms' decision about where to locate and how to structure its business, as well as their decision to enter into a new business sector or utilise new technologies overall. GDF and its members strongly believe that digitisation promises to be an opportunity that will transform the global financial services industry. The jurisdictions that can establish themselves as the leaders and centres of innovative finance will have a distinct

advantage, and will deliver greater efficiencies, new products, and transformative innovation to its consumers and businesses alike.

For firms operating in multiple jurisdictions, we would expand on the key factors which we believe influence investment decisions:

- **Regulatory Clarity and Support for Innovation:** The regulatory framework is a primary consideration, especially in sectors like fintech and blockchain, which are highly dependent on clear and forward-thinking regulations. Regulatory certainty is critical for firms to confidently invest and scale their operations. An explicit commitment from government and regulators to creating a balanced regulatory environment that encourages innovation while ensuring financial stability is a key investment driver. To deliver this clarity we would urge jurisdictional regulators to complete the development of an overarching regulatory framework (if they have not done so already) for digital assets as quickly as possible; innovation and experimentation must be underpinned by legal and regulatory certainty.

  Expanding on this, we would note that regulatory clarity is also critical as uncertain regulatory environments increase compliance costs and deter innovation, and at the same time, consumers have little to no protections. Jurisdictions that provide clear, risk-based, and proportionate regulations will be in a better position to attract long-term business investment and innovation in digital finance while managing consumer protection.

  We also recommend the FSB prioritise work on a functional regulatory approach, where crypto-assets and service providers are regulated based on their use case and activities, rather than focussing on applying rigid legacy classifications to the underlying crypto-assets that may not accurately reflect their actual economic or utility function when used by consumers or financial market participants. This functional approach may also require a change in how regulatory bodies, including standard setting bodies, approach supervision and policy making but we believe this is necessary given the level of innovation in digital markets and the ability for crypto-asset products and services to evolve during their lifecycle. Done well, a new functional approach to supervision and policy can remain consistent with the same risk, same rules and same regulatory outcomes, whilst ensuring an appropriate degree of consumer and market protection, including financial stability.

- **Market Access and Global Connectivity**: The ability to access diverse markets, capital, and liquidity is a significant advantage for consumers and markets. Having a thriving financial centre, coupled with legal clarity that enables cross-border connectivity, including clarity on equivalence regimes and mutual recognition, will support broader market access as well as connectivity, stability, inclusion, and growth across regions.

  This is especially crucial given the borderless nature of crypto and digital assets. Considering stablecoins specifically, GDF and GDF members are supportive of efforts made to establish mutual recognition frameworks and passporting regimes as part of a broader effort to preserve the global fungibility of stablecoin adoption. This helps to reduce the need for multiple registrations across jurisdictions. In regions such as the EU, through the Markets in Crypto Assets (MiCA) regulatory frameworks consistently applied by Member State countries, can enable a single regulatory approval to facilitate access across multiple countries across the EU.

- **Talent and Workforce Availability**: The availability of skilled professionals, particularly in emerging fields like AI, blockchain, and cybersecurity, is a significant driver of investment. Having a strong educational system, a dynamic labour market, and government initiatives to boost skills in financial services and emerging technologies are essential in attracting and retaining top talent. Given the relative lack of skilled professionals for firms and regulators to access currently, it is important that initiatives are developed to grow the talent pool overall. This will help to support growth and responsible innovation, whilst ensuring market stability.
- **Technological Infrastructure**: The readiness of a jurisdiction to support technological innovation, including AI, blockchain, and quantum computing, plays a key role in investment decisions. A jurisdiction's explicit commitment to developing and hosting cutting-edge infrastructure in areas like digital payments and sustainable finance makes it an attractive destination for technology-driven financial firms.
- **Economic Stability and Future Growth:** Firms seek environments that offer economic stability and long-term growth prospects. A jurisdictional strategy to harness innovation across multiple sectors, including finance, ensures a future-proof and resilient economic environment that can support continued growth in the financial services sector and the capital it attracts can then spur growth in other sectors, both domestically and globally.

  Jurisdictional strategies should also be careful not to ban or prohibit new market developments.

- **Competitive Taxation and Incentives**: A competitive taxation regime, along with government incentives for innovation and investment in emerging technologies, significantly influences decision-making. For example, stablecoins that follow regulatory guidelines will not generate gain or loss and thus should not be subject to tax or information reporting.

Experiences and challenges faced by crypto-asset market participants to meet the relevant regulatory and supervisory requirements.

Crypto-asset market participants face a multitude of challenges in meeting the diverse regulatory and supervisory requirements across jurisdictions. One of the key concerns identified is different jurisdictions adopting varying regulatory approaches.

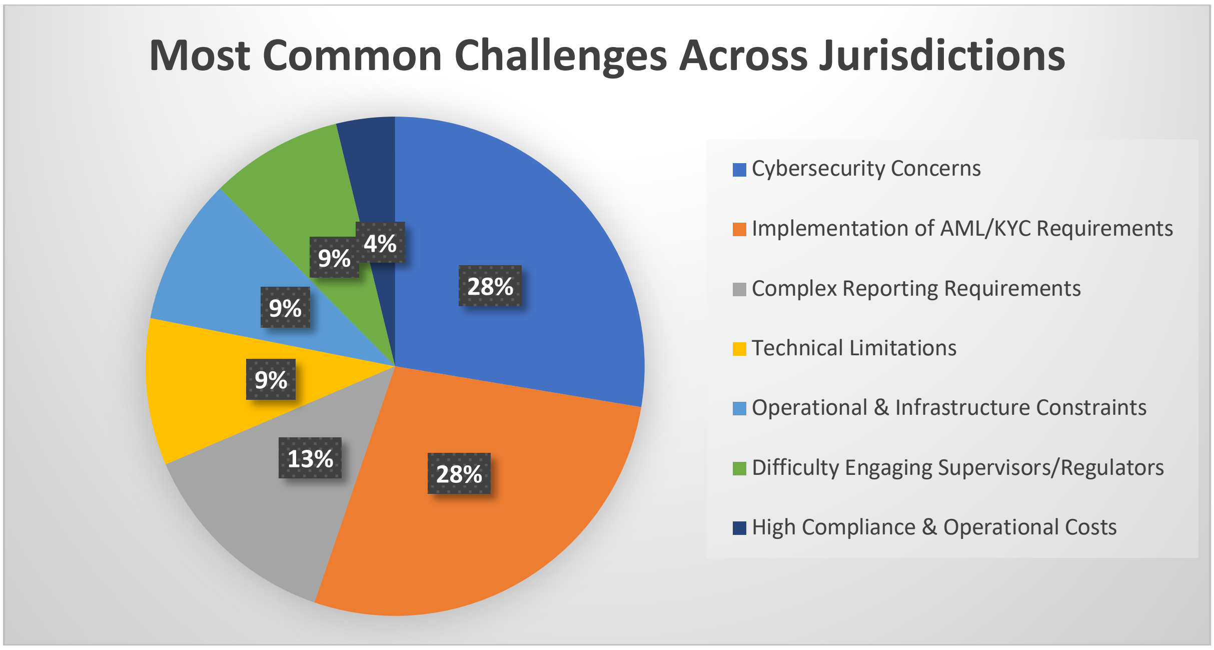
In addition to these regulatory challenges, participants also contend with operational and infrastructure constraints as well as, at times, the lack of availability of service provisions. For example, firms have noted experiencing the difficulty in obtaining necessary insurance cover and access to banking facilities, largely due to market limitations or risk aversion to the industry. These challenges can further complicate compliance efforts and affect consumer and market protections.

Further to these challenges, fragmentation across reporting requirements presents another layer of difficulty. For example, the current mandate to report sensitive personal data for non-EU stablecoins—such as USDC—raises significant privacy concerns under EU data protection laws like the GDPR. Market stakeholders have expressed concerns that providing detailed, individual data could jeopardise the personal information of millions of EU citizens, suggesting that obfuscation or the provision of aggregate numbers might be a more appropriate approach.[1]

Emerging markets additionally may struggle with technical limitations, underscoring the delicate balance between fostering innovation and ensuring consumer protection. Overall, these multifaceted challenges call for a more harmonised and flexible regulatory framework that can accommodate rapid technological advancements while safeguarding both market integrity and consumer data.

Finally, high compliance and operational costs represent a nearly universal issue. These costs are driven by the need to engage with legal and compliance professionals to navigate the complex multi-layered regulatory environment, which is a challenge that many industries face. For example, the approach to cybersecurity concerns, or the implementation of robust global AML/KYC requirements also remain inconsistent across many jurisdictions.

GDF surveyed its members and industry participants and aimed to highlight which challenges were the most common across various jurisdictions. Please note the below graphics are not necessarily representative of the views of all GDF members, but rather the below aims to provide a snapshot of general industry sentiment:



The most common challenges across all jurisdictions were Cyber Security Concerns, Implementation of AML/KYC Requirements (and the challenges associated with fractured or misaligned implementation), and Complex Reporting Requirements.

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[1] We would note in particular here the contentious issue of reporting of sensitive personal data for non-EU stablecoins such as USDC based on current EBA requirements (e.g., such as those to evaluate the 10 million threshold to classify a stablecoin as significant or identify the number of holders of non-EU EMTs). Disclosure of such would put at risk personal data of many citizens. We believe that there is a case for obfuscation, and/or provision of aggregate numbers rather than specific details, not to mention adherence with the necessity for the purpose for processing GDPR Article 5. This is something that the FSB may also wish to consider as GDPR principles and stablecoins become increasingly global.

While almost all regions saw cyber security and AML/KYC as a challenge, for the other challenges identified, these were more common in specific regions. For example:

- For ‘High Compliance & Operational Costs’: the US, Saudi, Egypt, Morocco were identified as regions that stood out.
- For ‘Complex Reporting Requirements’: While many regions were identified, causing it to stand out as the third highest challenge firms flagged in particular the EU (particularly fragmentation across member states and uneven implementation of MiCA), the US (and the lack of regulatory clarity and legal certainty), MEA and APAC. However, we would note that this is not an assessment of the robustness of a jurisdiction’s framework, or their implementation, but simply an identification of regions where regulatory complexity can be challenging for firms.
- For ‘Operational & Infrastructure Constraints: a higher concentration of APAC jurisdictions were flagged as posing this issue.
- For Difficulty Engaging Supervisors/Regulators: a higher concentration of MEA jurisdictions were flagged as posing this issue.

In the context of the key challenges, it is noteworthy that the top 3 do not relate to the delivery of regulated services or products per se, but in the management of risk and regulatory reporting across the ecosystem. As digital markets continue to increase and operate 24/7 and cross-border it is important that the G20 lead on the resolution of these matters to ensure markets continue to function well for all participants. We would encourage the FSB to discuss this in further detail with the G20, and to facilitate dialogue with GDF members and the G20 to help progress solutions that work for all industry participants.

How financial stability vulnerabilities of crypto asset activities, including stablecoins, differ across jurisdictions (e.g. based on the scale and materiality of the adoption of services) and how vulnerabilities are evolving (e.g. in type or magnitude) as jurisdictions implement relevant regulatory and supervisory frameworks.

GDF and its members agree with the FSB in their aim of conducting this Peer Review that financial stability vulnerabilities of crypto assets, including stablecoins, tokenized deposits, and all other forms of digital currency are not uniform across jurisdictions. These risks will vary depending on the local scale of adoption, the jurisdictional crypto asset market’s integration with traditional finance, and the maturity of regulatory frameworks. As regulators continue to evolve and adapt their approaches, the type and magnitude of these vulnerabilities are likely to change, in parallel with risks being mitigated as the overall global market matures.

We would highlight the following key areas in greater detail for the FSB to consider as jurisdictional approaches continue to evolve:

- **Scale and Materiality of Adoption**:
  We would note that financial stability vulnerabilities linked to crypto-asset activities are heavily influenced by how widely these services are adopted in a given jurisdiction, as well as by which area of the market segments (e.g., retail or wholesale) have adopted them, and the extent of that adoption.

  As crypto-asset adoption scales across jurisdictions, the absence of a globally harmonized taxonomy increases financial stability risks by creating fragmented regulatory approaches, inconsistent risk assessments, and cross-border compliance challenges. Different jurisdictions classify and regulate crypto assets based on varying legal, financial, and technological interpretations, leading to regulatory arbitrage, liquidity fragmentation, and operational inefficiencies for market participants. This inconsistency complicates risk monitoring and hinders regulators' ability to assess interconnected financial vulnerabilities, particularly as crypto assets become more embedded in traditional finance, institutional portfolios, and real-world asset tokenization.

- **Institutional Integration and Exposure**:
  Some jurisdictions have seen crypto assets become embedded in the traditional financial ecosystem (e.g., through banking partnerships, asset management, or as collateral in lending activities). In these cases, the vulnerabilities are not isolated to the crypto-asset ecosystem. However, we would also note that as institutional adoption occurs (in the absence of comprehensive regulatory frameworks) this integration could serve to mitigate some risks as crypto assets would be subject to similar standards and financial stability requirements of the traditional financial services ecosystem.

  As institutional adoption of crypto-assets grows, jurisdictions with well-defined regulatory frameworks that facilitate the responsible integration of crypto-assets into traditional finance will see a reduction in market volatility and an improvement in overall stability. For example, the inclusion of tokenized deposits, on-chain foreign exchange (FX) transactions, and blockchain-based settlement solutions in institutional payment rails can enhance liquidity efficiency while mitigating counterparty risks.

- **Compliance Complexity & Regulatory Arbitrage**
  One of the key emerging vulnerabilities in crypto-asset markets is the inconsistent implementation of regulatory frameworks across jurisdictions, leading to regulatory arbitrage and liquidity fragmentation. Some jurisdictions have opted for comprehensive, risk-based crypto regulations (e.g., the EU's MiCA framework), while others have taken a fragmented or restrictive approach. This divergence creates market distortions, as firms gravitate toward jurisdictions with more predictable regulatory environments, potentially concentrating risk in a few financial hubs.

  To prevent regulatory arbitrage, GDF members would be supportive of efforts in building global harmonization of key compliance standards across jurisdictions, including:

  - Consistent AML/CFT guidelines for stablecoin issuers and digital asset service providers;
  - A standardized approach to reserve disclosures and liquidity stress-testing for systemic stablecoins; and
  - Interoperable licensing and passporting regimes, enabling compliant firms to operate across multiple jurisdictions without duplicative approvals.

  Without such coordinated regulatory mechanisms, disparities in compliance requirements may incentivize risk migration rather than addressing vulnerabilities at their source, whilst adding cost and inefficiency to market participants and consumers that limits growth. To help with these challenges further work on a consistent cross-border supervisory framework suitable for the realities of the digital-asset industry, will be crucial in ensuring coherent oversight of globally significant crypto-asset activities. GDF members, as well as other industry participants, should be involved in these discussions.

As jurisdictions implement and refine regulatory and supervisory frameworks, the vulnerabilities associated with crypto assets are likely to shift. Initially, risks may be more closely related to operational or liquidity issues, yet over time, as regulators enforce standards around capital adequacy, transparency, and consumer protection, many of these risks will be mitigated.

However, GDF would also note that new challenges may emerge as the market (and regulation) evolves, and the FSB should be mindful of areas for continuous monitoring as part of their Peer Review. For example, compliance complexity may increase as regulatory measures continue to evolve, leading to an interim period with a patchwork of national rules and increasing complexity for firms conducting cross-border operations. This may inadvertently result in regulatory arbitrage as also highlighted in other areas of our response.

The evolution of supervisory practices can also influence how vulnerabilities manifest. Early-stage regulation has in some jurisdictions been reactive, addressing issues only as they occur. Over time, as regulators evolve their own approaches, they may move toward more proactive and forward-looking risk management frameworks, which could help in early identification and mitigation of emerging threats. This dynamic process means that vulnerabilities are not static—they evolve in response to both market developments and regulatory interventions.

However, even if a particular jurisdiction implements robust controls, the global and borderless nature of crypto means that vulnerabilities in one region can spill over to others. This interconnectedness calls for coordinated international approaches to regulation and supervision.

Finally, while regulation aims to safeguard financial stability, it must also support responsible innovation. Jurisdictions that implement overly restrictive requirements might limit potential economic benefits, while those that are too lenient may invite instability.

Overall, GDF believes that effective risk management will require not just national-level interventions but also international coordination to address the systemic and cross-border dimensions of these emerging risks.

Whether there are specific market practices and/or trends in certain geographies and/or segments that may pose a threat to financial stability.

GDF would note that at the moment, given the size of stablecoin and crypto asset markets, we do not currently believe they present a widescale financial stability risk, within the guardrails of appropriate and proportionate regulation.

That being said, risks still do exist within crypto asset markets and as such we have identified a few key risks which may be important for the FSB to monitor as if crypto markets continue to grow and scale, they may present financial stability risks at some point in the future. For example:

1. *Geographical concentration:* certain jurisdictions (with regulatory clarity) host a large portion of global crypto activity, which could become a single point of failure if that

jurisdiction's policies suddenly change or if a disaster (financial or cyber) strikes the locale.

2. *Lack of data in certain areas:* for example, the full exposure of banks or funds to crypto is not always transparently reported, which could conceal potential channels of contagion.
3. *Collateral Practices:* in most cases all collateral is required to be held by exchanges. This could in the future pose a threat to financial stability. To mitigate this risk the adoption of standard market practices (IM/VM) would be most welcome. GDF would recommend that practices should come more in line with ISDA/CDM etc.

We would also note that to migrate some of these risks in the future, the FSB and jurisdictional regulators could consider how to support the market in diversifying these risks through more competition and decentralization. This will be critical for resilience.

Adoption of new technologies **by regulators themselves** was also identified as a key risk mitigant to any emerging risks and as a way to significantly improve financial stability. Rather than creating centralized data repositories (which were identified as a potential risk for digital asset markets as new technologies would then need to report via old systems), regulators could host nodes embedded in market infrastructure to extract any information they want/need. One key use case identified was for trade reporting/bank reg reporting.

GDF and GDF members remain supportive of the FSB's aim to assess the market for these risks, and mitigate emerging risks through principles-based regulation, and supporting industry and jurisdictional regulators in driving forward best practice. However, we would encourage the FSB to engage with the wider digital-asset community when developing its standards. This will require a change in culture and mindset from the FSB where they become more comfortable speaking to new entrants in the market who may not be traditional banks or incumbents. Overall, it is not the FSB's role to pick winners or support certain operators, but to ensure financial stability. We would be happy to continue this dialogue with the FSB and to discuss in more detail the challenges and risks identified by GDF members, as well as how the public and private sector can work together to combat these challenges as the market grows and scales.